

IRS News Release

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IRS Begins Processing Returns Claiming Extender Deductions; Urges Taxpayers to File Electronically, Check on Phone Tax Refund

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WASHINGTON — The Internal Revenue Service has started processing tax returns that claim key tax provisions renewed by legislation enacted in December and urged taxpayers not to overlook the one-time telephone tax refund.

After completing planned updates to its systems to accommodate the “extender” changes, the IRS began processing on Saturday both e-file and paper tax returns claiming deductions for state and local sales taxes, higher education tuition and fees, and educator expenses.

The IRS emphasized that using e-file is the easiest and most accurate way to file a return, including any return claiming extender-related benefits. Makers of tax-preparation software have updated their products to incorporate these reinstated tax breaks.

“As we always do, we encourage taxpayers who think they may claim these deductions to file electronically,” said IRS Commissioner Mark W. Everson. “They will get their refunds in half the time, and e-file greatly reduces the chance for making an error compared to using a paper return.”

While taxpayers using software will fill out their returns as normal, taxpayers claiming the extender provisions on paper returns will have to take special steps. Because the extender legislation was enacted after the new tax forms went to print last year, separate lines for the affected deductions were omitted from 2006 individual income tax forms. For that reason, people filling out a paper return must use existing lines on the current Form 1040 and Schedule A to claim the three major extenders provisions. Paper filers should use these steps:

State and Local General Sales Tax Deduction

- Claim the deduction for state and local general sales taxes on Schedule A (Form 1040), line 5, “State and local income taxes.”
- Enter “ST” on the dotted line to the left of line 5 to indicate that the general sales tax deduction is being claimed, instead of the deduction for state and local income tax.

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- The new on-line sales tax calculator, launched last month on IRS.gov, can help taxpayers figure this deduction. In addition, Publication 600, which includes the state and local sales tax tables, a worksheet and instructions for figuring the deduction, was mailed last month to six million filers of paper 1040 forms.

Higher Education Tuition and Fees Deduction

- Claim the deduction for up to \$4,000 in higher education tuition and fees on Form 1040, Line 35, "Domestic production activities deduction."
- Enter "T" on the blank space to the left of that line entry if claiming the tuition and fees deduction, or "B" if claiming both a deduction for domestic production activities and the deduction for tuition and fees. For those entering "B," attach a breakdown showing the amounts claimed for each deduction.

Educator Expense Adjustment to Income

- Educators claim the deduction for up to \$250 of out-of-pocket classroom expenses on Form 1040, line 23, "Archer MSA Deduction."
- Enter "E" on the dotted line to the left of that line entry if claiming educator expenses, or "B" if claiming both an Archer MSA deduction and the deduction for educator expenses on Form 1040. If entering "B," taxpayers must attach a breakdown showing the amounts claimed for each deduction.

Form 1040A cannot be used to claim either the tuition and fees deduction or the educator expense deduction.

Whether claiming the extender deductions or not, the IRS reminds taxpayers that a one-time refund of the telephone excise tax on long-distance and bundled service is available on this year's return. One in three early filers are failing to request this special refund, and although many of them are likely not eligible, others may qualify and not know it. Use the Telephone Excise Tax Refund section on the front page of IRS.gov to learn more about this special refund.